

Message Text

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PAGE 01 BONN 14957 01 OF 02 121304Z

46

ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 TRSY-02 AID-05 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 L-03 DODE-00 PA-01 PRS-01 ABF-01 AGR-05

FEAE-00 INT-05 /108 W

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R 121245Z SEP 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 2815

INFO AMCONSUL BREMEN

AMCONSUL DUSSELDORF

AMCONSUL FRANKFURT

AMCONSUL HAMBURG

AMCONSUL MUNICH

AMCONSUL STUTTGART

USMISSION USBERLIN

USMISSION GENEVA

USMISSION EC BRUSSELS

USMISSION NATO BRUSSELS

AMEMBASSY BERLIN

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AMEMBASSY LONDON

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PAGE 02 BONN 14957 01 OF 02 121304Z

LIMITED OFFICIAL USE SECTION 01 OF 02 BONN 14957

E.O. 11652: N/A

TAGS: ELAB, GW

SUBJECT: DGB REPORTS 1975 REAL WAGE GOALS LARGELY
ACHIEVED

1. SUMMARY: ON AUGUST 28, A FEW DAYS BEFORE CHANCELLOR SCHMIDT VISITED DUESSELDORF TO SEEK TRADE UNION SUPPORT FOR HIS NEW AUSTERITY PROGRAM, THE DGB ANNOUNCED THAT AVERAGE REAL NET EARNINGS OF WEST GERMAN WORKERS IN THE FIRST HALF OF 1975 WERE OVER 4 PERCENT HIGHER THAN DURING THE FIRST HALF OF 1974. THE GOVERNMENT'S GOAL OF A 5 PERCENT INCREASE IN REAL WAGES THEREFORE HAS BEEN LARGELY ACHIEVED. DGB LEADERS APPARENTLY BELIEVE THAT STRESSING THE ACHIEVEMENTS OF THE UNIONS THROUGH COLLECTIVE BARGAINING AND GOVERNMENT TAX AND CHILD ALLOWANCE REFORMS MAY HELP PERSUADE UNION MEMBERS TO ACCEPT THE GOVERNMENT'S NEW AUSTERITY PROGRAM. THE GOVERNMENT HOPES THAT THIS YEAR'S GAINS IN REAL INCOME WILL ENCOURAGE TRADE UNION MODERATION IN THE NEXT COLLECTIVE BARGAINING ROUND, DUE TO BEGIN IN EARLY 1976. END SUMMARY.

2. THE DGB RECENTLY RELEASED A REPORT BY ITS ECONOMIC AND SOCIAL RESEARCH INSTITUTE, WSI, STATING THAT WAGE AGREEMENTS BROUGHT APPROXIMATELY 5.5 MILLION SALARIED EMPLOYEES AND 8.9 MILLION BLUE COLLAR WORKERS PAY INCREASES AVERAGING 6.8 TO 7 PERCENT RESPECTIVELY. THE WSI ALSO CALCULATED THAT THE ACTUAL GROSS EARNINGS OF BLUE AND WHITE COLLAR WORKERS DURING THE FIRST HALF OF 1975 WERE 7.5 PERCENT HIGHER THAN IN THE FIRST HALF OF 1974. TAX REFORM, WHICH REDUCED INCOME TAXES FOR AVERAGE WORKERS, AND LARGER CHILD ALLOWANCES COMBINED WITH WAGE GAINS TO INCREASE AVERAGE NET EARNINGS TO 11 PERCENT. SINCE THE CONSUMER PRICE INDEX DURING THIS PERIOD ROSE 6.2 PERCENT, THE REAL NET EARNINGS FOR WORKERS WERE 4.8 PERCENT HIGHER DURING THE FIRST HALF OF 1975 THAN DURING THE SAME PERIOD IN 1974.

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PAGE 03 BONN 14957 01 OF 02 121304Z

3. THE DGB, WHICH RELEASED THE WSI REPORT SEVERAL DAYS BEFORE CHANCELLOR SCHMIDT TRAVELED TO DUESSELDORF SEEKING TRADE UNION ACCEPTANCE FOR HIS AUSTERITY PROGRAM, ASSERTED THAT DESPITE A MAJOR ECONOMIC SLOW-DOWN, THE WSI STUDY SHOWS THAT THE WAGE POLICY OF THE TRADE UNIONS HAS BEEN SUCCESSFUL.

4. ALTHOUGH THEY HAVE FAILED TO SAY SO CLEARLY DGB

LEADERS APPARENTLY BELIEVE THAT BY EMPHASIZING PAST UNION SUCCESSES UNDER THE SCHMIDT GOVERNMENT, WHICH SET AS ONE OF ITS GOALS FOR 1975 AN INCREASE OF REAL WAGES OF 5 PERCENT, THEY WOULD HELP PERSUADE UNION MEMBERS TO ACCEPT THE GOVERNMENT'S NEW AUSTERITY PROGRAM.

5. REMEMBERING THAT IN 1974 PAY INCREASES OBTAINED UNDER COLLECTIVE AGREEMENTS AVERAGED BETWEEN 11 AND 12 PERCENT, GOVERNMENT, BUNDESBANK, AND OTHER ECONOMIC EXPERTS AND EVEN MANY MANAGERS AGREE THAT THE UNIONS DID SHOW MODERATION DURING WAGE NEGOTIATIONS IN EARLY 1975, WHICH CONTRIBUTED TO "ECONOMIC STABILITY."

6. HOWEVER, THE PAST MAY NOT BE A PROLOGUE TO THE FUTURE. AND THE UNIONS ARE CONCERNED OVER PROSPECTS FOR COLLECTIVE BARGAINING IN 1976. SEVERAL ECONOMIC FACTORS WILL LEAVE THEM LESS FREEDOM TO MANEUVER NEXT YEAR. FOR 1976, THE COUNCIL OF ECONOMIC ADVISERS HAS

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PAGE 01 BONN 14957 02 OF 02 121301Z

46

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PAGE 02 BONN 14957 02 OF 02 121301Z

LIMITED OFFICIAL USE SECTION 02 OF 02 BONN 14957

PREDICTED THAT INFLATION, NOW RUNNING AT SLIGHTLY OVER 6 PERCENT, WILL DECLINE TO ABOUT 5 PERCENT. ON THE OTHER HAND, WORKERS MAY BE CONFRONTED WITH HIGHER SOCIAL SECURITY TAXES. EMPLOYERS, WHO HAD EXPECTED AN 8 TO 9 PERCENT INCREASE IN PROFITS IN 1975, ARE STILL EXPERIENCING DECLINING PRODUCTION, STAGNATING PRODUCTIVITY AND RISING LABOR COSTS. (ACCORDING TO THE FEDERAL ECONOMICS MINISTRY ACTUAL HOURLY EARNINGS PER EMPLOYEE IN MANUFACTURING IN APRIL AND MAY WERE 12.5 PERCENT HIGHER THAN DURING THE SAME PERIOD IN 1974. DURING THE SAME PERIOD LABOR COSTS PER UNIT INCREASED 12.5 PERCENT. THEREFORE, GAINS IN PRODUCTIVITY HAVE NOT COMPENSATED FOR INCREASED WAGE PAYMENTS.) AND EMPLOYERS ARE INSISTING THAT SETTLEMENTS NEXT YEAR MUST BE "SUBSTANTIALLY BELOW" THE 6.5 TO 7 PERCENT INCREASES NEGOTIATED IN 1975. ALSO, GROWING BUDGET DEFICITS ARE ALREADY CAUSING THE GOVERNMENT TO URGE WAGE RESTRAINT DURING THE UPCOMING COLLECTIVE BARGAINING IN THE PUBLIC SERVICES.

7. COMMENT: BARRING UNFORSEEN DEVELOPMENTS, WAGE SETTLEMENTS BELOW THE 6 TO 7 PERCENT NEGOTIATED IN

1975 WOULD ADVERSELY AFFECT THE PURCHASING POWER OF WORKERS WHO HAVE GROWN ACCUSTOMED TO A STEADY RISE IN REAL INCOME FOR THE PAST 20 YEARS. THIS POSES A DIFFICULT PROBLEM FOR THE GOVERNMENT IN AN ELECTION YEAR. SOME LABOR SOURCES CLAIM THAT THEY BELIEVE THAT UNLESS WAGE INCREASES EXCEED THE RATE OF INFLATION, WORKERS DISSATISFACTION COULD LEAD TO A NEW SERIES OF WILD CAT STRIKES, ESPECIALLY IF THE ECONOMIC SITUATION IMPROVES AND UNEMPLOYMENT DECLINES. THEY ALSO CLAIM THAT, IN ADDITION TO CREATING PROBLEMS FOR MANAGEMENT, WORKER DISSATISFACTION COULD WEAKEN THE GOVERNMENT COALITION.
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